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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

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Rates continued to be volatile this week as market participants attempted to assess the week's economic news for indications of the likely direction of the securities markets. Contributing to the tension was the burdensome level of inventories carried in from the previous week's Treasury refunding, as well as the substantial calendar of new corporate issues coming to market. The Federal Open Market Committee met on Tuesday, but with supply problems capturing the market's attention, there was for the moment remarkably little concern over what the outcome of the meeting might be. That should change soon, however.

The markets were helped somewhat by the relatively low level of the Federal funds rate on Tuesday and Wednesday, together with the Fed's coupon purchase on Wednesday. However, since the operation was viewed as technical in nature, and since the market universally expected the funds market to be tight on Friday (settlement day for the Treasury issues offered in the previous week's refunding), market gains were limited.

Once the special factors marking this week are out of the way, the market's attention is likely to revert to its favorite obsession--the Fed's policy stance. Thus, it is worth reviewing the setting in which this week's FOMC meeting took place. Since the last meeting, a number of economic indicators have pointed toward more strength than had generally been anticipated earlier. As a result, most observers are now expecting a recovery to set in sometime in the fourth quarter of this year. In the international financial sector, the dollar's foreign exchange value remains highly sensitive to interest rate movements. And the growth of the monetary aggregates has been rapid recently. With M_1A and M_1B at or slightly below the lower bounds of their target ranges, while the broader M_2 measure is in the upper part of its range, the Fed almost certainly does not feel under pressure to try to speed monetary expansion. In sum, all of these considerations point toward at least a temporary halt in the Fed's move toward ease.

Of course, several other factors will weigh in the opposite direction. We remain in a recession and the politically sensitive unemployment rate will probably rise further in coming months. Also, reflecting the recent run-up in rates in the secondary mortgage market, a number of mortgage lenders have raised their residential mortgage rates. Naturally, if this upward movement is not reversed soon, pressure will build on the Fed to do something to avoid thwarting the recovery of the currently depressed housing industry. Finally, the inflation rate should show some improvement in coming months, despite the drought's impact on food prices. All of these considerations favor a more accommodative policy stance.

On balance, our view continues to be that rates will work downward between now and year-end, but the decreases are likely to be gradual and grudging--definitely nothing to shout about.

William C. Melton

Irving Trust

Market Yields

	8/15/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	11.00	11.00%	12.00%
Effective since	7/24/80		
Discount Rate at Federal Reserve Bank	10.00	10.00	10.50
Federal Funds	9.00	9.13	11.00
Repurchase Agreements	8.38	8.88	10.15
U.S. Treasury Issues			
Bills			
3 months	8.54	8.70	9.90
6 months	8.96	9.13	10.10
1 year	8.99	9.30	10.02
Coupons			
2 years	10.08	9.65	9.48
4 years	10.14	9.98	9.05
7 years	10.63	10.50	8.96
10 years	10.89	10.75	9.01
Long Bond	10.88	10.65	8.94
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.45	9.15	10.80
3 months	9.60	9.30	10.82
6 months	10.00	9.50	10.95
1 year	10.25	10.00	10.50
Banker's Acceptances			
1 month	9.30	9.15	10.77
3 months	9.60	9.25	10.88
6 months	10.00	9.55	11.00
Eurodollar Deposits			
1 month	9.50	9.63	11.31
2 months	10.00	9.88	11.44
3 months	10.38	10.19	11.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.88	7.00	10.40
1 month	9.13	8.63	10.50
3 months	9.00	8.75	10.16
Bank Holding Companies			
1 month	9.00	8.63	10.55
Dealer Placed:			
3 months	9.13	8.63	10.50
New AA Corporate Utility Bond	12.75	12.50	9.60
Tax Exempt			
6 month Project Notes	4.60	4.35	4.95
1 year AAA Bond	5.10	5.00	N/A
5 year AAA Bond	5.45	5.40	N/A
20 year AAA Bond	7.80	7.95	5.80

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629